PREPARED STATEMENT OF THE
FEDERAL TRADE COMMISSION

before the

FINANCIAL INSTITUTIONS AND CONSUMER CREDIT SUBCOMMITTEE,

HOUSE FINANCIAL SERVICES COMMITTEE

on

Rent-to-Own Transactions

July 12, 2001

I. INTRODUCTION

Mr. Chairman and members of the Committee: I am Howard Beales, Director of the Federal Trade Commission's Bureau of Consumer Protection.[*] I appreciate the opportunity to appear before you today on behalf of the Commission to discuss a recent report by the FTC's Bureau of Economics titled, "Survey of Rent-to-Own Customers." I will discuss the methodology and findings of the survey and the conclusions of the report, which I hope will be helpful in informing the discussion of rent-to-own issues and policies. The Commission has not had an opportunity to fully consider and analyze the bill to amend the Consumer Credit Protection Act that is currently before the Subcommittee and, therefore, believes it is inappropriate to comment on it at this time. Let me begin by speaking very briefly about the Commission's role in enforcing laws that bear on financial issues relevant to the rent-to-own industry.

As part of its mandate to protect consumers, the Commission enforces the Federal Trade Commission Act ("FTC Act"), which broadly prohibits unfair or deceptive acts or practices.[1] The Commission also enforces a number of laws specifically governing lending and leasing practices, including the Truth in Lending Act ("TILA")[2] and the Consumer Leasing Act ("CLA"),[3] which require disclosures and establish certain substantive requirements in connection with consumer credit or lease transactions, respectively.[4] The Commission has jurisdiction over most non-bank lenders.[5] In addition to its enforcement duties, the Commission also responds to requests for information about consumer financial issues and consumer financial laws from

[*] The views expressed in this statement represent the views of the Commission. My oral statement and responses to questions you may have are my own and are not necessarily those of the Commission or any Commissioner.

consumers, industry, state law enforcement agencies, and the media.

II. THE RENT-TO-OWN INDUSTRY

The rent-to-own industry (also known as the rental-purchase industry) consists of dealers that rent furniture, appliances, home electronics, jewelry, and other items to consumers. Rent-to-own transactions provide immediate access to household goods for a relatively low weekly or monthly payment, typically without any down payment or credit check. Consumers enter into a self-renewing weekly or monthly lease for the rented merchandise, and are under no obligation to continue payments beyond the current weekly or monthly period. The lease provides the option to purchase the goods, either by continuing to pay rent for a specified period of time, usually 12 to 24 months, or by early payment of some specified proportion of the remaining lease payments. These terms are attractive to many consumers who cannot afford a cash purchase, may be unable to qualify for credit, and are unwilling or unable to wait until they can save for a purchase. Some consumers also may value the flexibility offered by the transaction, which allows return of the merchandise at any time without obligation for further payments or negative impact on the customer's credit rating. Other consumers may rent merchandise to fill a temporary need or to try a product before buying it. The Association of Progressive Rental Organizations (“APRO”), which is a rent-to-own industry trade association representing over half of the rent-to-own stores, estimated that in 2001 there are approximately 8,000 rent-to-own stores in the United States, serving nearly three million customers, and producing $5 billion in annual revenues.

III. KEY FINDINGS OF THE SURVEY OF RENT-TO-OWN CUSTOMERS

In the past decade, there has been considerable debate regarding the rent-to-own industry. For example, there have been allegations of serious consumer protection problems and proposals for federal regulation. Noticeably absent, however, was an independent, systematic examination of the typical rent-to-own transaction. The FTC staff attempted to fill this gap by conducting a nationwide survey of rent-to-own customers. From December 1998 to February 1999, over 12,000 randomly selected United States households were surveyed to identify rent-to-own customers. FTC staff then interviewed 532 households (out of the 12,000) that had engaged in rent-to-own transactions in the past five years. In addition to collecting data about these rent-to-own transactions, FTC staff also recorded demographic data on household members to get a better understanding of the typical rent-to-own customer.

The survey had three primary goals: (1) to examine which consumers use rent-to-own transactions and how they differ from consumers who do not; (2) to determine whether rent-to-own transactions typically result in the purchase of the rented merchandise; and (3) to determine whether abusive collection practices are widespread in the industry. The survey also examined the types of merchandise rented, customer purchase intentions, the duration of rentals, the reasons why merchandise was returned, and the extent to which customers lost merchandise through a return or repossession after making substantial payments towards ownership.

Some key findings from the survey include:

Demographics

- 2.3% of U.S. households had entered into rent-to-own transactions in the last year, and 4.9% had engaged in such transactions in the past five years.

- 31% of rent-to-own customers were African American, 79% were 18 to 44 years old, 73% had a high school education or less, 59% had household incomes less than $25,000, 67% had children living in the household, 62% rented their residence, 53% lived in the South, and 68% lived in non-suburban areas.

- 44% of rent-to-own customer households had a credit card; 49% had a savings account; and 64% had a checking account. 77% of customer households had at least one of the three types of credit card or bank accounts, while 23% had none.

Characteristics of a Rent-to-Own Transaction

- 70% of rent-to-own merchandise was purchased by the customer. The purchase rate was consistently high (at least 60%) across most demographic groups, and 70% of customers purchased at least one item of merchandise.

- 67% of customers intended to purchase the merchandise when they began the rent-to-own transaction, and 87% of customers who intended to purchase actually did so.

- Rent-to-own customers rented an average of 2.5 items of merchandise per customer over the last five years. 40% of rent-to-own customers rented merchandise on more than one occasion over that period.

- 38% of rented items were home electronics products, 36% were furniture, and 25% were appliances. The most commonly rented items were televisions, sofas, washers, VCRs, and stereos, which together accounted for over half of all rented merchandise.

- Merchandise purchased from the rent-to-own store was rented for an average of 14 months before it was purchased, with 47% purchased in less than a year. Merchandise returned to the rent-to-own store was rented for an average of five months before returned, with 81% returned within six months or less.

- 59% of the merchandise returned to the rent-to-own store was returned because the renter’s need for the merchandise had changed, 24% was returned for financial reasons, and 8% was returned because of a problem with the merchandise or store.

- 90% of the merchandise on which customers had made substantial payments towards ownership (of six months or more) was purchased by the customer, and 10% was returned to the store.

Customer Satisfaction

- 75% of rent-to-own customers were satisfied with their experience with rent-to-own transactions. Satisfied customers gave a wide variety of reasons for their satisfaction, favorably noting many aspects of the transaction, the merchandise and services, and the treatment they received from store employees. 19% of rent-to-own customers were dissatisfied with their experience, and most cited rent-to-own prices as the reason. Complaints about high prices were made by 27% of rent-to-own customers, including nearly 70% of dissatisfied customers. Smaller percentages of customers (between one and eight percent) complained about problems with the merchandise or repair service, the treatment received from store employees, the imposition of hidden or added costs, and other miscellaneous issues.

- Nearly half of all rent-to-own customers had made at least one late payment. 64% of late customers reported that the treatment they received from the store when they were late was either "very good" or "good," and another 20% reported that the treatment was "fair." 15% of late customers reported being treated poorly when they were late, including 11% who indicated possibly abusive collection practices.

The survey did not examine whether rent-to-own customers were aware of the total cost of purchase of the rent-to-own item when they began renting, or whether they performed comparison shopping prior to engaging in rent-to-own transactions. The current extent and format of actual industry disclosures were also outside the scope of the survey. In addition, the survey did not assess the extent of dealer compliance with the disclosures required by the various state rent-to-own laws, the extent of state enforcement of these laws, or the extent to which some dealers may disclose information that exceeds state requirements.

IV. CONSUMER PROTECTION ISSUES

The Bureau of Economics' report noted that a number of consumer protection concerns have been raised about the rent-to-own industry by consumer advocates. These concerns include the prices charged by the industry (which can be two to three times retail prices, and sometimes more), the treatment of customers during the collection of overdue rental payments, the repossession of merchandise after customers have paid substantial amounts towards ownership, the adequacy of information provided to customers about the terms and conditions of the rental agreement and purchase option, and the disclosure of whether merchandise is new or used. Consumer advocates also have argued that rent-to-own transactions are really credit sales, not leases, and should be subject to federal and state consumer credit laws.

Currently, rent-to-own transactions are not specifically regulated by the federal laws that govern other credit transactions, namely, the TILA and the CLA. Federal legislation that would specifically regulate rent-to-own transactions has been proposed several times in the past decade. Some of the proposed legislation would have applied federal and state credit laws to the rent-to-own industry, while other proposed legislation would have regulated rent-to-own transactions as leases.

The report noted that forty-six states had laws that regulated rent-to-own transactions in a manner similar to leases. It found that the laws varied from state to state, requiring a variety of disclosures related to the lease and the purchase option, and imposing a variety of other requirements and prohibitions on rent-to-own contracts and dealers. It further found that most states required that the disclosures be made in rental agreements and advertisements, but not on product labels. The report also found that no state had legislation regulating rent-to-own transactions as credit sales; however, courts in some states have ruled that rent-to-own transactions are credit sales and, therefore, are subject to state laws governing credit sales.

A key factual issue in the debate over whether rent-to-own transactions are sales or leases has been the extent to which rent-to-own customers purchase the rented merchandise. The industry has maintained that about 25 to 30 percent of rent-to-own merchandise is purchased, and that the rest is returned to the dealer after a relatively short rental duration. Some consumer advocates have presented a sharply different view, maintaining that most rent-to-own transactions result in the purchase of the rented merchandise. The survey found that approximately 70% of rent-to-own merchandise is purchased by the customer, and recommends that regulation of the rent-to-own industry recognize this important fact.

Because of this high purchase rate, the Bureau of Economics' report concludes that it is important that consumers know about basic terms of the rent-to-own transaction, in particular the total cost of purchase, before entering an agreement.[6] According to the report, information on the total cost of purchase, including all mandatory fees and charges, would allow consumers to compare the cost of a rent-to-own transaction to alternatives, and would be most useful if it were available while the customer was shopping. The report also states that the best way to provide total cost information at the shopping stage would be to provide it on product labels on all merchandise displayed in the rent-to-own store. Finally, the report recommends that other basic terms of the transaction, including the weekly or monthly payment amount, the number of payments required to obtain ownership, and whether the merchandise is new or used, should be provided on product labels, and in advertisements that make representations regarding the weekly or monthly rent-to-own payments. The report also noted that all of the terms and conditions of the transaction should be disclosed in the agreement document.

In addition, the report concludes that because rent-to-own dealers typically do not use abusive practices in collecting overdue rental payments and because few customers lost merchandise through return or repossession after making substantial payments toward ownership, federal regulation of industry collection practices and reinstatement rights may be unnecessary at this time.

V. CONCLUSION

Based on the Bureau of Economics' report, the Commission does not recommend federal legislation regarding the rent-to-own industry at this juncture. Determining whether legislation is needed requires information regarding these transactions in addition to that considered in the report. The Commission needs to know, for example, whether consumers currently understand the total cost of rent-to-own transactions, what information they have available at present, and what alternatives to the rent-to-own transaction they typically consider.

The Commission hopes that the survey results are helpful to the Subcommittee, and looks forward to working with Congress on rent-to-own issues.

ENDNOTES

1. See 15 U.S.C. § 45(a).

2. See 15 U.S.C. § 1601 et seq.

3. See 15 U.S.C. § 1667 et seq. The CLA is an amendment to the TILA.

4. The Commission also enforces various other financial statutes, including the Equal Credit Opportunity Act, 15 U.S.C. § 1691 et seq., which, inter alia, prohibits discrimination against applicants for credit on the basis of age, race, sex, or other prohibited factors; the Fair Credit Reporting Act, 15 U.S.C. § 1681 et seq., which, inter alia, governs the use of consumer credit reports, and the Fair Debt Collection Practices Act, 15 U.S.C. § 1692 et seq., which, inter alia, prohibits certain abusive collection practices by debt collectors.

5. See, e.g., 15 U.S.C. § 45(a); 15 U.S.C. § 1607.

6. As the Bureau of Economics' report noted, disclosure of key terms such as the total cost of purchase could provide meaningful disclosures to consumers, would be less problematic than calculation of an Annual Percentage Rate ("APR") for rent-to-own transactions (which are hybrid arrangements that do not simply involve debt obligations), and would avoid the potentially difficult implementation and enforcement issues that an APR disclosure could entail in this context.